# THE ROLE OF BEHAVIOURAL FINANCE IN FINANCIAL PLANNING AND INVESTMENT DECISIONS OF INDIVIDUALS OF HIMACHAL PRADESH.

## SYNOPSIS

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# INTRODUCTION

Human financial decision-making behaviour is not always rational due to which public may lose interest in economy. The economic activity drive everyone to do business, seek employment and profess a profession. Therefore, every human being involve himself/herself in certain vocation and strive to earn and save without knowing about the pure and applied concepts of the field of finance. If we provide financial literacy and knowledge about this specialized field simply, then they may generate financial prudence. People earn, save and invest in different avenues as per their requirements, like purchase of house, car, children's education, for old age etc. We all may have our long term or short-term financial objectives. Generally, our investments are based on these objectives. Suppose, if we have to invest for retirement purposes, then we have to invest in long term plan and if we are planning for holiday then we have to invest in short term financial plan. Finance is life blood of all entities whether individual, organization, state or country. Finance is basically an activity concerned with the flow of funds. If we elaborate it further, the inflow and outflow of funds in an entity. It gave rise to a system called a financial system whose major function is to transferring money from those who want to invest to those wishing to borrow.

Finance has been categorized into four categories i.e.

- PERSONAL FINANCE
- PUBLIC FINANCE
- CORPORATE FINANCE

Types of Finance

Here, we are concerned with personal finance. Personal finance defines all the financial decisions or activities of an individual or household including budgeting, insurance, saving,

investment, retirement planning etc. Planning is decided in advance what to do, when to do, how to do and who is going to do. Means deciding about the future so that we can achieve our various future objectives. For example, if an individual want to invest for her daughter's education, she is practicing financial planning. Financial planning is a step by step approach to meet one's financial goals. It's just estimating the needs and according to needs how we precure finance and where one has to invest for better results, this process is called financial planning. Financial planning is how one has to manage and control its personal finance to fulfill life's goals. Personal finance may be considered a recent development because now the economist or financial analyst are involved in analyzing an individual or family's current financial position, predicting their current financial short-term and long-term financial need within the individual's financial constraints. Here we may quote Benjamin Franklin who had rightly said "If you fail to plan, you are planning to fail." As per this statement, we must understand the importance of personal financial planning.

How one plans one's finance, will depend upon their pattern of behaviour. The behaviour of each investors is always different, because, thinking, perception and psychology of each investor is different. To know much about the behaviour of investors, we have to peep in to the concept of behavioural finance.

Behavioural finance is the study of influence of psychology on the behaviour of investor or financial analyst. It focuses on the fact that individual is not always rational, they have limits to their self-control and also influence by their own bias. Because of the shortcomings of traditional theories of finance new theory has been originated with the name of behavioural financial theory.

According to Traditional financial theory:

- Both the market and investors are rational.
- Investors have perfect self-control.
- They are not confused about by information processing errors.
- Investors truly care about practical and useful rather than attractive characteristic.

According to behavioural financial theory:

- Investors are treated as normal.
- They have limits to self-control.

- Investors are influenced by their own bias.
- Investors making cognitive errors that can lead to wrong decisions.

These biases and cognitive errors can be categorized into four parts which are,

- Self-description
- Heuristic
- Emotion
- Self-Influence

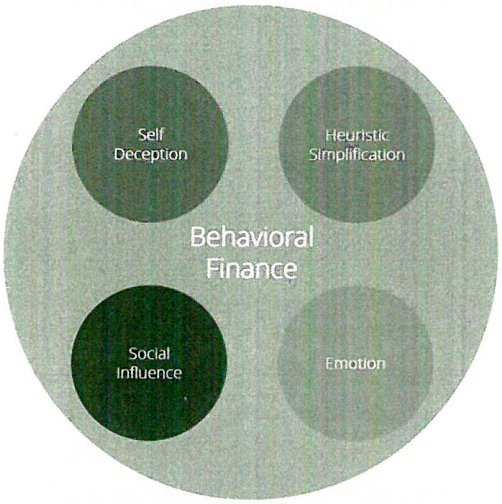


Fig. 2: Corporatefinancinstics

- Self-Description: When we mistakenly think that we know more then we actually do, we tend to miss information that we need to make an informed decision.
- Heuristic: Heuristic simplification refers to information processing errors.
- Emotion: Emotion refers to making our decisions on our current emotional states.
- Social Influence: Social aspect is how our decision making is influenced by others.

There is no doubt that behaviour of an individual must affects investments decisions. Each individual is different, they have different thinking power, have different perception, different goal, different experience, different risk taking power and different approach because of which investment pattern of each individual may differ from each other. One financial plan may be good for one but may not prove to be the same for the other individual.

# LITERATURE REVIEW

**Sanjay Kanti Das (2012), Assam**

According to this study, the saving and investment pattern of middle-class income household is bank deposits as it is the most popular instrument of investment followed by insurance and small saving schemes with maximum number of respondents. It was also found that majority of respondents look for tax benefits and high returns while investing in any instruments. Slight variation is observed when respondents are classified on age and income group only some respondents on high income group show keen interest to build huge corpus. Most people believe that there is direct relationship between saving and income

**E Leppinen (2013)**

Relavant theories of behavioral finance were used in this paper after careful research. The behavioural finance models implemented were Herding , Anchoring, Prospect theory and regret aversion. The study was divided into three objectives. First, was to reveal the main issue of the individual investor and second was to expose consequences of individual stock investor is being affected by behavioral models. Third objective was to study whether there are correlation between major stock investment strategies and behavioral finance theories.

**Lubna Ansari and Sana Moid (2013)**

This study has helped in throwing light on factors that creates an impact on investing activities of young professionals. Investing activities of young professional are independent of gender but dependent on income and age. Majority of investors invest for growth and additional income. The major factor that guides their investment decision is risk factor which means that investors Smostly are risk averse.

**Naela Jamal Rushdi(2014)**

According to this research it has been concluded that psychographic factors affect investment decision to very large extent. The psychology and the demography of investor make him a unique individual and must be treated in unique manner by investment industry. In spite of various limitations, the results and findings of study clearly prove that making a financial decision is a complicated process and there is no one 'correct' plan for every investor.

**Navjot Kaur (2015) Punjab**

According to this research financial literacy is a vital element to predict household financial attitudes in developing nations. From the empirical studies it has been revealed that females are not much aware with the credit card ideology and compound interest rate calculations. Empirical result of study concluded that financial literacy is vital element not only for female but also to balance household budget, retirement saving, income assurance, when the source of income is lost. Women have always liable for dealing with day today financial decisions which further put impact on economy of the country.

**Yann Massol, Alexis Molines (2015)**

After analyzing this research, it was found, when it comes to student investors, neither nationality nor gender nor religion play a role in influencing their risk tolerance. Students never reacts like adults. They are overconfident about their financial plans and have a high level of risk tolerance.

**Amlan Jyoti Sharma (2016) Assam**

According to this publication behavioural finance alone cannot be perfect one because thoughts which are descriptive and advisory in nature. More studies and discussions are required to point limitations of behavioral finance itself so as to be refine it a good theory. Till then we must admit that it is just a theoretical frame work, which is definitely a positive attempt for the refinement of theory.

**J. Fieger (2017) Jordan**

According to this literature review it has been understood that behavioural finance is a valuable tool for financial advisor to better understand implement recommendation for clients. Understanding the behavior pattern of client can make the financial advisor more effective and strengthen the client – advisor's relationship.

**Kumari Asmita (2017), Pusa**

As per this study, most of teachers used to save a major part of their incomes in bank and also use cash for their expenditures. Most of teachers save their money in banks as it is most preferred avenue due to safety reasons and invest in government sector due to moderate risk. On the other hand college teacher were positively and highly significant with different variables like education, family income etc.

**Jyoti Kumari (2017) Jharkhand**

According to this research it has found that demographic factors don't put much impact on their risk tolerance capacity different set of strategies for different cluster with demographic variations. Investor don't invest in equity because of variable factor like being cheated, stock market volatility, lack of knowledge, lack of risk taking capacity, misleading data, lack of investible surplus, negative words of mouth and lack of time to be vigilant every now and then.

**Simon Garima (2019) Hakan Boz**

After researching on British Consumer behavior, it has been found that individuals have difficulties in comparing products if they don't have similar features and options to compare. It's really a tough task to take decisions on the basis of comparison.

**Bharti Wadhwa, Aakanksha uppal, Anubha, Devinder Kaur (2019) Delhi.**

According to this publications awareness of investment knowledge among people is not much high. For Indians public money is everything. They are more sensitive about their money. They will think hundred times before investing. They are over confident as they think they have some knowledge of financial market and economic condition of India, yet the lack the edge above as this field is very unpredictable and volatile.

**Alistair Byrne, Senior Investment consultant**

Byrne's study reveals that there is a prevalence towards investing towards investing in property with respondents believing that it is better to own than the other financial asset. Studies also reveal that individual to be overconfident in their ability to lead a comfortable retirement life without for it.

**D. Srijanani, T.Vijaya (2018) Hydrabad**

According to this publication, the main aim is to verify the role of gender in financial decision making. This research provides evidence of risk taking difference between males and females. The study reveals that males are more risk taking than females and basis upon their risk taking power they choose their investment avenues.

## STATEMENT OF PROBLEM

To plan finances is not an easy task. We can have a look at different nations. In spite of recruited experts of finance, governments sometime unable to manage their finance and has to face financial crisis or have to deal with deficit. To meet such deficits, they have to seek for international financial aids and same become tough to repay later. Such similar situations may also face by state government, different form organizations and individuals also. People earn income, save but afraid of to invest their hard-earned money in different avenues due to lack of financial management knowledge. Individual being an important part of country's economy need to manage their finance. We know that each individual is different and they have different preferences for different investment plans, having different risk-taking capacities, their perceptions are also different. Means each individual has different behavior for investment. Sometime because of poor financial planning people has to face failures and has to bear loss. On the other hand, some people get success in their financial plan and enjoy the life. All this success and failure of individual investor contribute towards nation's economy. That is the reason, there is need to study the financial planning being done by an investor keeping in view their pattern of behaviour towards investment(s).

# NEED AND OBJECTIVES OF THE STUDY

## NEED OF THE STUDY

The need of the study arises because of the unperceived situations those come in one's life as individual, social being, economic being, factors affecting changes in an environment. All this has a bearing on the financial planning and investment pattern of the investor. The research gaps being depicted by the review of literature, raises the relevant research issues in the present research. The foremost purpose of the study is to find out the investment pattern of the individuals of Himachal Pradesh with regard to their pattern of behaviour as an investor. There is a great need to know that how the people of state invest in various avenues basis on their psychological and demographic factors. As we know that each individual has different behaviour and perception, it become evident to know the impact and relevance of behavioural finance in investment decision of investors. To analyze the behaviour of Himachal Pradesh investors, there is a need to find out the ratio of income, saving and investment of individual. Now a days, Covid-19 has also put impact on everybody's life, how Covid-19 has affected the investing pattern of investment need also to be investigated.

## OBJECTIVES OF THE STUDY

1. To study the behaviour of individual investors of Himachal Pradesh with regards to behavioural finance.
2. To study the need, saving behaviour and investment pattern of individual investors of Himachal Pradesh and also acertain the ratio of income, saving and investment of investors.
3. To study the impact and relevance of behavioural finance in investment decisions of investors of Himachal Pradesh.
4. To study the different investment avenues based on investor's demographic and psychological factors for future investors.

## RESEARCH METHODOLOGY

Research methodology is the systematic way of solving a research problem. To reach to some conclusions, we have to use the sampling techniques, data collection methods, different tools for analyzing the research problem. The valid sample size shall also be determined. The Area for the present research study will be Himachal Pradesh. As per Administrative division, Himachal Pradesh has been divided into three divisions viz., Shimla, Mandi and Kangra. Random individuals will be selected from these three divisions. Following research methodology will be used for the study.

- Both Primary and secondary data will be used.
- For primary data, I will select 400 random individuals from the different area of Himachal Pradesh. Data will be collected through well designed questionnaires.
- Questionnaires will be divided into three parts.
    1. First part will contain questions related to their demographic profile of investors.
    2. Second part will contain their preferences of investment avenues with regard to their behavior.
    3. Third part will consist questions regarding the perception of investors towards their investment pattern.
- Various statistical tools will be used as per need of study.
- Secondary source data will be collected through newspaper, books, journals, magazines, official websites, research papers, article etc.

## EXPECTED OUTCOME OF THE STUDY

The present research study on financial planning and investment pattern of individual investors keeping in view the behaviour finance will be helpful for society, especially for the people of Himachal Pradesh. Individuals will get knowledge about different financial assets available in market. According to their needs, they may invest in various available avenues so that they may get maximum return. The present study will also helpful for individual investor regarding their investment planning as regard to their individual behavior. They may choose best investment plan as per their requirement, basis upon their demographic and psychological factors. Aspirants will also come to know about income, saving and investment ratio of respondents which may also helpful for future research scholar.

## THESIS OUTLINE

**Chapter 1:** This chapter will provide detailed introduction of financial planning, behavioral finance, its different theories, advantages, disadvantages and impact on individual investor etc.

**Chapter 2:** This chapter will provide detailed analysis and review of existing literature which will have been studied for present research study, which may include books, journals, research papers related to present topic, literature from various websites and literature from e books etc. Main concentration will be on the conclusion of earlier research scholars.

**Chapter 3:** This chapter will provide detail about data and research methodology used for research. For this specific research, both primary data (which will be collected through random individuals) and secondary data (which will be collected from books, journals, research papers etc.) will be used.

**Chapter 4:** This chapter will include interpretation and analysis of collected data. Various statistical tools may be used like ratio analysis, z-test, t-test, chi-square test, tables and pie diagrams etc. as per the requirement of analysis.

**Chapter 5:** This chapter will include outcome of research, implications and conclusion of research study.

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